

CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION
CORPORATION FILE

Rhodes ANNUAL REPORT 1966

Rhodes

DIRECTORS:

HERBERT I. DUNN, *Schwabacher & Co.*
J. C. ERNST
JOHN J. GOLDBERG, *Assistant Secretary*
O. JAMES MAUEL
ELLIOTT McALLISTER, *Director,
The Bank of California, N.A.*
LEE G. PAUL, *Partner,
Paul, Hastings, Janofsky & Walker*
JOHN J. REILLY, *Chairman of the Board*
JOHN J. REILLY, JR., *President*
LINDSAY L. RUSCH, *Vice President,
Secretary and Treasurer*
F. A. WICKETT

OFFICERS:

JOHN J. REILLY, *Chairman of the Board*
JOHN J. REILLY, JR., *President*
LINDSAY L. RUSCH, *Vice President,
Secretary and Treasurer*
PARK B. DOWD, *Vice President*
JOHN J. GOLDBERG, *Assistant Secretary*

LEGAL COUNSEL:

Steinhart, Goldberg, Feigenbaum & Ladar

TRANSFER AGENT:

Crocker-Citizens National Bank
1 Montgomery Street
San Francisco, California

PUBLIC ACCOUNTANTS:

Price Waterhouse & Co.

REGISTRAR:

Wells Fargo Bank
464 California Street
San Francisco, California

ANNUAL STOCKHOLDERS MEETING:

Tuesday, April 25, 1967, 11:00 o'clock A.M.
Rhodes-Oakland, Executive Offices, 1501 Broadway, Oakland, California

TO OUR SHAREHOLDERS

Sales of Rhodes in 1966 were \$69,061,842, an increase of 5% over the 1965 figure of \$65,974,224. Net profit for the fiscal year was \$1,097,077, equal to \$1.35 a share on the common stock, after payment of preferred dividends. Profit compared with \$1,088,285, or \$1.33 a common share, in 1965.

The Albuquerque, New Mexico store completed its first year of operations in October, 1966. We are pleased to report that the progress of our 13th and newest store has been encouraging. During the past year our major remodeling projects were the Tacoma fashion floor and the redecorating of the Concord store.

Rhodes' cities are distinguished for their rapid growth, an expansion that continues. The photographs on the following pages show some of the private and public projects undertaken to consolidate and extend their growth.

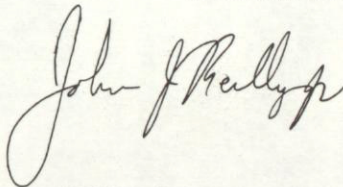
In 1966, Rhodes paid four regular quarterly dividends of 25 cents a share on common stock, in addition to preferred dividends. The retained earnings account totaled \$14,465,166 on January 31, 1967.

Park B. Dowd was elected a Vice President in March 1966. In January 1967, the company took the major step of establishing a corporate merchandising and buying organization. This will be under the direction of Mr. Dowd.

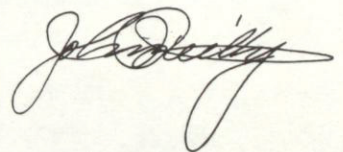
The Company plans to buy shares of its common stock at such times and in such amounts as appear sound and desirable, with due consideration to price, available funds and other pertinent factors.

The greatest single asset of a department store is its people. We are fortunate at Rhodes to have a staff which strives to make our stores a pleasant place to shop, through prompt, friendly service. We wish to thank our fellow workers for a job well done. We also express our gratitude to our customers, shareholders and suppliers for their support during the past year.

FOR THE BOARD OF DIRECTORS:



JOHN J. REILLY, JR.
PRESIDENT



JOHN J. REILLY
CHAIRMAN

RHODES CITIES: *a progress report*

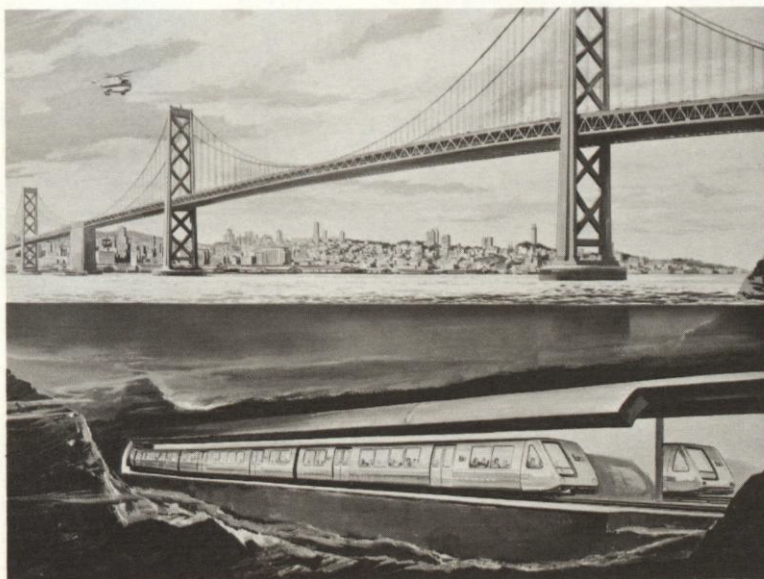
The cities in which Rhodes has stores are among the fastest growing in the nation. They lie in the path of the greatest human migration in history. Millions of Americans have moved to the West and Southwest, attracted by the amenable climate, great natural beauty, the informal western living, the allure of the "last frontier." Outstanding research centers have attracted many science-oriented industries.

Recent developments assure the continued growth of Rhodes' cities. Some of the more significant are shown in the photographs on these pages.

TACOMA will benefit from the selection of Boeing Company to build the U.S. Supersonic Transport. Mock-up is shown at right.



PORTLAND's freeway system when completed will present this appearance, and speed traffic to our downtown and Gateway stores.



OAKLAND and **CONCORD** stores are on the route of the Bay Area Rapid Transit System, to serve 2,400,000 people in 3 counties.



OAKLAND greeted 1966 with a 55,000 seat Coliseum and a 15,000 seat Sports Arena, giving the East Bay city Big League status.



PALO ALTO attracts science-based companies. Above is a corner of Stanford Industrial Park, home for many space-age industries.



SACRAMENTO's new freeway system moves people into the city speedily, conveniently. Rhodes' two stores adjoin new freeways.



FRESNO opened this \$10,000,000 Community and Convention Center in 1966, another step forward for the progressive Central Valley City.



PHOENIX's rapid growth requires many new buildings, such as the Financial Center above, typical of the city's architecture.



ALBUQUERQUE has a new terminal building at its Sunport, where many travelers first arrive in this fast growing city.



SAN ANTONIO is preparing for HemisFair '68, exhibiting Western Hemisphere arts, industries. Attendance estimate is 7,000,000.

RHODES BALANCE SHEET

ASSETS	January 31 1967	January 31 1966
CURRENT ASSETS:		
Cash and short-term securities	\$ 3,169,482	\$ 3,214,845
Accounts receivable, less allowance for doubtful accounts— 1967, \$462,000; 1966, \$533,000	14,253,017	14,168,020
Merchandise inventories—on hand, at lower of cost or market as determined by the retail inventory method; in transit, at cost	<u>13,536,757</u>	<u>13,040,829</u>
	<u>30,959,256</u>	<u>30,423,694</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Unexpired insurance, prepaid taxes and other deferred expenses	661,228	656,228
Miscellaneous receivables, deposits, etc.	<u>246,876</u>	<u>339,007</u>
	<u>908,104</u>	<u>995,235</u>
PROPERTIES, at cost:		
Land	129,991	129,991
Furniture, fixtures, equipment, etc.	6,030,994	6,565,008
Leasehold improvements	4,409,442	4,348,261
Accumulated depreciation and amortization	<u>(7,221,937)</u>	<u>(7,295,531)</u>
	<u>3,348,490</u>	<u>3,747,729</u>
	<u>\$35,215,850</u>	<u>\$35,166,658</u>

See notes to financial statements

LIABILITIESJanuary 31
1967January 31
1966**CURRENT LIABILITIES:**

Accounts payable	\$ 3,661,759	\$ 3,544,567
Payrolls, taxes and other accrued liabilities	917,817	957,052
Current instalment on note payable	500,000	500,000
Federal taxes on income, estimated	935,083	717,063
	<u>6,014,659</u>	<u>5,718,682</u>
Accumulated income tax reductions (Note 1)	1,620,000	1,560,000
Total current liabilities including accumulated income tax reductions	<u>7,634,659</u>	<u>7,278,682</u>

LONG-TERM NOTE—

5%, payable \$500,000 annually; balance due March 1, 1981 (Note 3)	<u>7,500,000</u>	<u>8,000,000</u>
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STOCKHOLDERS' EQUITY:

Cumulative preferred stock, par value \$100 per share, authorized 100,000 shares; issued and outstanding 30,000 shares, 5%, designated as Series A Preferred (Notes 2 and 3)	3,000,000	3,000,000
Common stock, par value \$.25 per share—authorized 1,200,000 shares; represented by 709,538 issued shares of which 7,121 shares were held in Treasury on January 31, 1967 (Notes 2 and 4) . . .	177,385	177,334
Capital in excess of par value of common stock (Note 4)	2,438,640	2,447,374
Retained earnings, per accompanying statement (Note 3)	14,465,166	14,263,268
	<u>20,081,191</u>	<u>19,887,976</u>
	<u>\$35,215,850</u>	<u>\$35,166,658</u>

See notes to financial statements

RHODES STATEMENT OF INCOME

	Year ended January 31 1967	Year ended January 31 1966
Net sales including leased departments	\$69,061,842	\$65,974,224
Cost of sales	45,503,129	43,851,081
Selling, operating and administrative expenses, less credit service charges	20,225,165	19,025,142
Depreciation and amortization	693,168	693,519
Contributions under employee benefit plans	293,248	268,588
Interest expense	401,715	427,085
	<u>67,116,425</u>	<u>64,265,415</u>
	1,945,417	1,708,809
Other income	186,660	169,476
Income before federal income taxes	<u>2,132,077</u>	<u>1,878,285</u>
Provision for estimated federal income taxes (Note 1)	975,000	570,000
Provision relating to use of instalment basis for tax purposes (Note 1)	60,000	220,000
	<u>1,035,000</u>	<u>790,000</u>
Net income for the year	<u>\$ 1,097,077</u>	<u>\$ 1,088,285</u>

STATEMENT OF RETAINED EARNINGS:

Retained earnings at beginning of year	\$14,263,268	\$14,030,027
Net income for the year	1,097,077	1,088,285
	<u>15,360,345</u>	<u>15,118,312</u>
Less:		
Cash dividends paid:		
Preferred stock	150,000	150,000
Common stock	705,057	705,044
Cost of treasury stock purchased	40,122	
Retained earnings at end of year (Note 3)	<u>\$14,465,166</u>	<u>\$14,263,268</u>

Notes to Financial Statements, January 31, 1967

NOTE 1: ■ The Company for financial statement purposes reports income at the time the sale is made, whereas it follows the instalment method of reporting income for tax purposes. The use of the instalment method allows the Company to defer the recognition of income, which has the effect of reducing current tax burdens with the corresponding conservation of cash resources for other use in the business. Provision equivalent to the current net tax reduction is included in the income statement and the accumulated tax reduction is set forth separately in the balance sheet. In the absence of changed conditions, the cash conserved by use of the instalment method for tax purposes will be retained for use in the business indefinitely.

The Company follows the flow-through method of accounting for the investment tax credit provided by the Revenue Acts of 1962 and 1964. The provision for federal income taxes for the years ended January 31, 1967 and January 31, 1966 have been reduced by \$24,000 and \$112,000, respectively, representing the investment tax credit for the year.

NOTE 2: ■ The Series A Preferred can be redeemed at (or is entitled to receive in the case of voluntary liquidation) \$105 per share on or before June 1, 1970, such amount decreasing ratably to \$100 per share on June 1, 1979, plus any unpaid and accumulated dividends. The Company is required to make payments into a sinking fund on June 1 of each year of \$125,000 for years 1969-1973, \$175,000 for years 1974-1978 and \$300,000 for years 1979-1983 less amounts equal to the par value of Series A Preferred purchased or redeemed. Sinking fund payments are to be used to purchase or redeem Series A Preferred at prices not exceeding the par value thereof.

The purchaser of the Series A Preferred was granted a warrant which expires June 1, 1973, entitling the holder to purchase 20,000 shares of common stock at \$22.50 per share. At January 31, 1967, 20,000 unissued common shares were reserved for this purpose.

NOTE 3: ■ The Series A Preferred Stock and long-term note agreements each provide, among other covenants, for restrictions on the payment of cash dividends. Retained earnings at January 31, 1967, not so restricted were \$1,004,170.

NOTE 4: ■ During the year 643 shares of common stock which had been previously sold to employees were surrendered to the Company in accordance with the conditions of the purchase plan. The cost of the surrendered shares, totaling \$12,009, was deducted from capital in excess of par value.

The Company adopted in 1965 a qualified stock option plan under which options may be granted to officers and key employees to purchase common stock at prices equal to the fair market value at the date of grant. During 1966, options to purchase 21,500 shares were granted of which options for 4,500 shares were subsequently cancelled. An option granted for 125 shares under a prior stock plan was also cancelled. At January 31, 1967, there were options outstanding for 20,950 shares at prices ranging from \$16.625 to \$17.93 per share and 33,950 shares of common stock were reserved for this purpose. Options granted in 1962 and 1963 are exercisable ratably over a four-year period commencing two years from date of grant; options granted in 1966 may be exercised in four equal annual installments commencing one year from date of grant.

NOTE 5: ■ The Company occupies its thirteen stores under leases which expire at various dates from 1972 to 1994. The leases provide for rentals based on sales with a guaranteed minimum and in certain instances require payment of property taxes, insurance and certain other expenses, which in general may be deducted from rents paid in excess of the minimum. The terms of leases covering nine stores may be extended at the option of the Company. In addition, fixtures in four stores are covered by leases which expire at various dates from 1973 to 1975. Total rentals of \$3,184,000 were charged to operating expenses in 1966. The minimum annual rental commitments for 1967 are \$2,950,000.

Opinion of Independent Accountants

To the Board of Directors and Stockholders of Rhodes Western

In our opinion, the accompanying balance sheet and related statements of income and retained earnings present fairly the financial position of Rhodes Western at January 31, 1967, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

San Francisco, March 10, 1967

PRICE WATERHOUSE & CO.

RHODES TEN YEAR SUMMARY OF OPERATIONS

<i>Years Ended January 31</i>	<i>1967</i>	<i>1966</i>	<i>1965</i>	<i>1964</i>
Net sales	\$69,061,842	\$65,974,224	\$63,544,037	\$56,948,324
Income before federal income taxes	2,132,077	1,878,285	1,419,619	1,789,495
Federal income taxes	1,035,000	790,000	560,000	715,000
Net income	1,097,077	1,088,285	859,619	1,074,495
Per common share	1.35	1.33	1.01	1.49
Dividends paid				
Preferred stock	150,000	150,000	150,000	25,000
Common stock	705,057	705,044	704,428	701,882
Per common share	1.00	1.00	1.00	1.00
Additions to properties	293,929	261,794	358,712	1,024,529
Depreciation and amortization	693,168	693,519	750,252	633,250
Accounts receivable	14,253,017	14,168,020	13,574,239	13,026,294
Merchandise inventories	13,536,757	13,040,829	12,114,756	12,176,226
Working capital	23,324,597	23,145,012	22,863,375	19,963,852
Properties, net	3,348,490	3,747,729	4,180,597	4,572,137
Total assets	35,215,850	35,166,658	34,313,862	31,685,664
Long-term debt	7,500,000	8,000,000	8,500,000	6,000,000
Stockholders' equity	17,081,191	16,887,976	16,643,593	16,594,730
Per common share	24.32	23.94	23.61	23.63
<i>At year end:</i>				
Shareholders, common stock	1,706	1,786	1,904	1,917
Employees	2,514	2,665	2,552	2,467
Stores in operation	13	13	12	11

<i>1963</i>	<i>1962</i>	<i>1961</i>	<i>1960</i>	<i>1959</i>	<i>1958</i>
\$50,044,477	\$46,035,273	\$45,516,456	\$46,069,861	\$40,704,446	\$41,021,658
2,462,718	2,295,074	2,410,895	3,201,566	2,475,662	2,100,990
1,260,000	1,190,000	1,250,000	1,675,000	1,270,000	1,085,000
1,202,718	1,105,074	1,160,895	1,526,566	1,205,662	1,015,990
1.72	1.58	1.66	2.19	1.72	1.45
700,221	699,808	700,710	595,321	556,816	699,872
1.00	1.00	1.00	.85	.80	1.00
425,961	506,198	901,837	1,197,153	543,427	965,169
785,054	834,802	802,213	751,554	625,280	624,438
10,804,115	3,249,488	9,628,071	9,542,428	8,944,980	8,835,662
10,019,604	8,866,276	8,678,698	7,745,446	6,713,753	6,172,264
17,086,704	16,595,316	16,621,038	16,787,803	16,823,246	14,471,617
4,180,858	4,539,951	4,873,740	4,771,203	4,322,557	4,450,695
27,440,462	26,775,009	26,109,278	27,137,693	26,428,226	23,048,074
6,000,000	6,440,000	6,880,000	7,320,000	7,760,000	6,200,000
16,212,781	15,696,893	15,323,788	14,786,624	13,922,368	13,255,804
23.15	22.45	21.85	21.23	19.89	18.97
1,994	2,000	2,135	2,042	2,013	2,038
2,200	2,093	2,050	2,069	1,868	1,863
9	9	9	8	7	7

Rhodes